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SUBJECT: New Delhi Weekly Econ Office Highlights for the Week of  
July 27-31, 2009

REFTEL: New Delhi 1401

11. (U) Below is a compilation of economic highlights from Embassy  
New Delhi for the week of July 27-31, 2009, including the  
following:

- Tax Breaks Clear the Way for Oil and Gas Auction
- Passing of FY 2010 Budget Trumps Economic Reforms
- India Plans September WTO Mini-Ministerial to Reenergize Doha  
Round Negotiations
- EU to Raise Concerns Regarding Wine and Spirits Duties on  
Sidelines of Delhi WTO Meeting
- China Threatens to Restrict Indian Food Imports

Tax Breaks Clear the Way for Oil and Gas Auction  
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12. (U) The GOI is scheduled to re-launch one of India's largest oil  
and gas block auctions under the New Exploration Licensing Policy  
(NELP) VIII (meaning the eighth round) on August 8, with bids due by  
mid-October. The Ministry of Petroleum and Natural Gas (MPNG)  
deferred the original NELP VIII auctions due to the ambiguity on  
natural gas tax exemptions and the resulting lack of investor  
interest. However, MPNG rescheduled NELP VIII auctions after the  
Ministry of Finance announced that it would extend the seven-year  
income tax holiday on profits gained from producing and selling  
natural gas for blocks awarded under NELP VIII. The MPNG also plans  
to auction ten coal-based methane (CBM) blocks under the fourth  
round of CBM auctions now that the Ministry of Finance has granted  
similar tax holidays for the exploration of CBM. The GOI hopes  
these additional tax incentives will help attract \$3 billion of  
investment in exploration under NELP VIII.

13. (SBU) Malcom Lall, advisor to the MPNG's Directorate General of  
Hydrocarbons told EconSpecialist that the road show, the launch of  
the auction that will include conferences and meetings inviting key

oil and gas companies, will begin in Mumbai and continue to Perth, Brisbane, London, Houston, and Calgary. An international investor meeting in Singapore is also planned for August 17. Mr. Lall said that 70 blocks are up for auction, out of which 24 are deep-sea blocks, 28 shallow water blocks, and 18 on-land blocks.

#### Passing of FY 2010 Budget Trumps Economic Reforms

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14. (U) India's Parliament passed the FY2010 budget (12 months ending March 31, 2010) on July 27. During the Parliamentary debate, Finance Minister Pranab Mukherjee introduced several additional concessions from the proposed budget. (Reftel)  
The budget changes include tax subsidies and tax holidays to home owners, and developers involved in lower and middle income housing. Two-year tax holidays were also extended on industrial parks and tax breaks were provided to the food sector including firms involved in processing, meat packaging, poultry, marine, and dairy products. Tax breaks have also been extended for the exploration of natural gas.

15. (U) Comment: With one week remaining before the Parliamentary session ends on August 7, it is unlikely that the reform legislation benefitting foreign investors in the pension and insurance industries will be introduced. The insurance bill was expected to lift the 26 percent foreign direct investment (FDI) cap to 49 percent, and it was hoped a pension bill would align FDI limits in the pension sector (currently disallowed) with FDI limits in the insurance sector. End comment.

#### India Plans September WTO Mini-Ministerial to Reenergize Doha Round

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#### Negotiations

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16. (U) India has invited trade ministers from the WTO developing country G-20 plus the United States, EU and other "large countries" to attend an informal mini-ministerial meeting in New Delhi on September 3-4 which, it is hoped, will "reenergize" Doha Round negotiations. The agenda is still being developed. At an event sponsored by the Federation of Indian Chambers of Commerce and Industry (FICCI) on July 29 (details to be reported septel), Minister of Commerce and Industry Anand Sharma said, "India is committed to taking the Doha Development Agenda (DDA) process to a successful conclusion." He said the DDA process had "paused;" it needed to be "reenergized, but not reinvented." He recognized that the economic downturn presented additional challenges for leaders, but stressed that "development" must remain at the core of the process and that DDA has to be fair and equitable. Commerce Secretary Rahul Khullar said GOI's hope for the mini-ministerial was to have a "rallying of voices" among a larger group of countries than just the G-7 or G-8, creating a "rainbow coalition" of convergence. Press asked which countries were coming and specifically whether the United States had committed. Sharma responded that invitations had just gone out last week but that the GOI would share information on acceptances as they came in. For logistical details on the mini-ministerial meeting provided by the Ministry of Commerce and Industry, see <http://www.commerce.gov.in/wtoindia/default.a sp>

#### EU to Raise Concerns Regarding Wine and Spirits Duties on Sidelines of Delhi WTO Meeting

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17. (U) Continuing its efforts to decrease effective duties on imported wine, the European Union (EU) has announced that it will send its Trade Commissioner to India to meet with Minister Sharma on the sidelines of the September 2009 WTO Ministerial Meeting in Delhi. (Note: Wine and spirits remain absent from the EU-India FTA negotiations on tariff reduction. End Note.) U.S. exporters of wine and spirits have shared EU concerns over India's high import duties, which have consisted of countervailing duties equivalent to local excise taxes. The basic tariff for both imported bottled wines and spirits into India is 150 percent, which is within the WTO bound rate. However, a cascade of excise duties and other local state

level taxes significantly increases the price of imported wine. For example, the state of Maharashtra, which imposed a special fee of 200 percent on imported wines until recently, has exempted locally-produced wines and spirits from excise duties.

¶8. (U) Following separate WTO cases filed by the United States and EU in 2007, the Government of India (GOI) eliminated discriminatory additional custom duties on wine and spirits at the federal level; however, states remained authorized to charge special duties.

¶9. (U) Comment: As wine and spirits will not be covered by the proposed uniform tax system (both at federal as well as state level) to be implemented in April 2010 as the Goods and Services Tax (GST), it is important that India resolves this long-standing issue with its major trading partners. End Comment.

#### China Threatens to Restrict Indian Food Imports

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¶10. (U) In response to India's ban on Chinese milk and dairy products, India's largest trading partner threatened this week to restrict imports of Indian food products, including seafood and sesame oil. State Commerce Minister Jyotiradiya Scindia informed Parliament that China's quality control supervision and inspection

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department (AQSIQ) had conveyed to him that it had encountered food safety problems in imported food products (seafood and sesame oil) from India. Earlier this year, India imposed a partial ban on Chinese toy imports. As China objected to India's discriminatory ban in June this year, the GOI extended the ban to all countries, and increased its scope to include Chinese dairy products on health safety grounds.

¶11. (U) Comment: The GOI has claimed that the ban on milk products was purely a precautionary measure following reports of contaminated consignments from China to other Asian and African countries. As trade between China and India has grown to \$50 billion in 2008-09 from \$38 billion in the previous fiscal (making China India's biggest trade partner), the GOI will not be able to ignore China's protests for long. End Comment.

¶12. (U) Visit New Delhi's Classified Website:  
<http://www.state.sgov/p/sa/newdelhi>.

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